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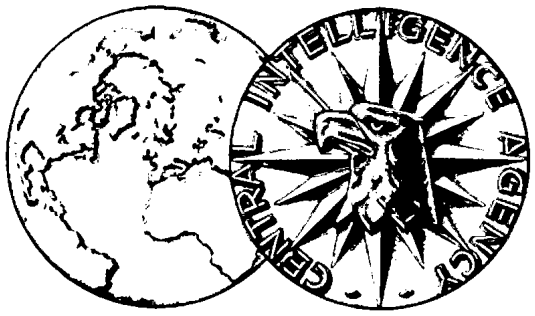
REVIEW OF THE WORLD SITUATION



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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

SUMMARY

1. Western European calm in the face of publicity about the new Soviet atomic capability and current Soviet restraint in propaganda do not alter the fact that the USSR will try increasingly to persuade Europeans that the balance of world power has shifted decisively away from the Western world. A propaganda campaign in this vein probably will aim at undermining unified defense under the North Atlantic Treaty and promoting a trend toward neutrality in Central and Western Europe.

2. The USSR is continuing to restrict its campaign against Tito to measures short of direct military action, but will pursue such measures vigorously to offset the disintegrating effects of the Tito heresy and schism elsewhere in the Soviet sphere.

3. Against the eventuality of "Titoist" heresy spreading and to free its hands for developing Soviet policy in Central Europe without fear of repercussion in the Satellites, the USSR is consolidating its controls in Poland and Czechoslovakia.

4. The Soviet propaganda line hinting at an eventual alliance between the USSR and a unified Germany is part of the well-established Soviet strategy of winning West Germany away from economic and political cooperation with Western Europe and the US. Successful exploitation of this theme is unlikely while the USSR continues its heavy-handed methods of control in East Germany and while political and economic conditions in Western Europe continue to improve.

5. Current negotiations and studies concerning steps toward economic integration of Western Europe in one or more free-trade blocs will provide clues as to whether Western Europe will be able to find answers to the problems posed by low productivity in a world of highly competitive marketing. Success in answering these problems, to which present attempts to lower trade barriers relate, will be a major factor in determining how permanent will be the remarkable reconstruction of Western Europe during the past two years. While steps toward a Continental bloc of Italy, France, and the Benelux countries probably will come, the British are unlikely to join even though they will cooperate. Without direct and intimate participation by the British, serious difficulties will attend the effort to fit West Germany into a Continental bloc without permitting Germany to dominate it. Trends in the movement toward economic integration will shape up very slowly, but in the long run they will be some of the main determining factors in the pattern of political structure and national power in all Europe.

6. Tentative steps toward unification of the Arab states in the Near East are unlikely to overcome traditional distrust and automatic resistance to real cooperation.

7. Early recognition of the Communist dominated "Central People's Government" in China by one or more non-Communist powers is probable, with British and Indian tendencies toward this step pointing the way. In South Asia the Republican leaders in Indonesia, if they can maintain order and establish their authority during the next few months, have an opportunity to take a place beside India as an element of non-Communist strength in Asia.

8. While no major US security interest is endangered in Latin America, there has been a declaration of a state of siege in Colombia and a deterioration either in the stability or the representative character of the government in Peru, Bolivia, Paraguay, and Argentina.

Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 10 November 1949.

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY OF THE UNITED STATES

1. General.

Initial Western European reaction to the announcement that the USSR had mastered the basic technology of the atomic bomb has been remarkably calm. It contrasts sharply with the alarm felt even by responsible and influential people a year or two ago whenever there was a new demonstration of Soviet military might. While the causes of this calm are many and complex, one basic factor is that the possibility of atomic bombardment adds little to the fear evoked ever since 1946 by the prospect of Soviet military occupation—with or without subsequent atomic "liberation." There may also be a shrewd guess that, in the event of war, the USSR would prefer to seize the Continental industrial plant reasonably intact rather than destroy it. In this circumstance, such a line of reasoning might conclude, Soviet use of the atomic bomb would aim primarily at neutralizing superior British/US atomic capabilities by the threat of retaliation.

Soviet broadcasts to the Western world so far have been unusually restrained concerning the new atomic capability. Moscow propaganda machinery, after adjusting itself very slowly to the world publicity given the atomic explosion in the USSR, as yet has merely stressed the idea that the period of US "atomic blackmail" is over. This theme has been linked with assertions that the new advance in Soviet military technology is comparable with alleged Soviet superiority in political and economic activities and therefore is a great gain for the "peace offensive." Renewed bids for small-power support of the Soviet-proposed ban on atomic weapons have been incorporated in this propaganda line. The predominant tone, in all comment, restrained but clear, has been the implication that the balance of world power has shifted decisively away from the West to the USSR. All this indicates that the USSR in the near future will make political and diplomatic rather than military use of its atomic weapon. The presumed capacity to produce atomic weapons bolsters Soviet prestige and greatly increases Soviet capabilities for exerting psychological pressure on Western Europe. A full-scale propaganda campaign along this line is almost certain to build up. Its aims, already well established in Soviet policy, will be to undermine unified defense efforts under the North Atlantic Treaty and promote a trend toward neutrality in Central and Western Europe.

G. M. Malenkov, now apparently number three man in the Soviet hierarchy, adopted this general tone in his keynote speech at the Moscow celebration of the thirty-second anniversary of the Bolshevik Revolution. More aggressive and boastful than Molotov a year ago, he stressed the achievements of the USSR at home, including the development of atomic energy, and went on to warn that US domination of European industry and colonial markets would lead to war and the end of capitalism. In reference to developments in critical areas abroad, Malenkov mentioned the Chinese Communist regime deferentially, almost as a junior partner, dealt with the Soviet-controlled East German "state" as if it were simply another Satellite, but stressed the historical importance of Germany as a whole. All these references reflected, although with some distortion, the current preoccupations of Soviet policy-makers.

2. Yugoslav Rebellion.

The USSR is seriously troubled by the immediate challenge and eventual repercussions of Tito's rebellion against the Kremlin and the Cominform. Yugoslavia's election to the UN Security Council over the violent protests of the Soviet bloc has only made it more imperative for the USSR to bring to a successful conclusion its long drive to eliminate Tito. Tension continues along Yugoslavia's frontiers, especially on the Hungarian border.

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The Yugoslavs are taking defensive measures against the eventuality of large-scale guerrilla infiltration or direct military action. As yet, however, there is no indication that the USSR will resort to any aggressive steps beyond provoking border incidents and conducting clandestine or limited paramilitary operations. In the face of the larger threat, Tito is placing great emphasis on the power and responsibility of the UN as a force for peace, and the Yugoslav delegation can be expected to maneuver skilfully to maintain an independent but fundamentally anti-Soviet position in the General Assembly and the Security Council. At the same time Tito will look increasingly to the Western Powers for support, including military supplies.

By force of these circumstances what initially was a local Balkan heresy has become a formal schism in international Communism. With a world audience and the increasing support of non-Communist nations, Tito can develop his vigorous attack on the theoretical base of Soviet domination in the satellite belt in Eastern Europe. While the controversy ostensibly centers in Leninist and Stalinist doctrine, Tito's defection is mainly a reflection of national resentment at Soviet economic exploitation of Yugoslavia. This nationalist sentiment embodied in the Yugoslav-Communist doctrine already has attracted followers in the Communist ranks, including some in the satellite states. Survival of the Tito regime in Yugoslavia thus threatens automatically to undermine Moscow's control in the whole sphere of Soviet influence. The USSR consequently cannot afford to let the drama end at this climactic point. Act two will see the USSR try to bring Tito to a villain's death by every form of attack short of overt warfare.

3. Soviet Consolidation in Eastern Europe.

Proceeding more quietly than in the campaign against Tito, the USSR is moving with comparable resolve to shore up Communist orthodoxy in other areas of Eastern Europe. Establishment of rigid Soviet controls in Poland and Czechoslovakia has become more pressing and at the same time more difficult as a result of tentative Soviet advances toward the Germans. The Poles are painfully aware that the most likely bribe to offer German nationalists is revision of the Oder-Neisse boundary in favor of Germany. The Czechoslovaks are acutely anxious over the future of the Sudeten lands. Return of Polish-occupied East German territory, which contains about ten percent of prewar Germany's industry, would take from Poland the only major advantage conferred by the Polish-Communist alignment with the USSR. Any attempt to buy German friendship by boundary revisions would weaken Czechoslovak interest and cooperation in the long-range Soviet plan for developing an integrated industrial complex in Silesia. Moves to strengthen reliable Communist elements in both Poland and Czechoslovakia will serve not only to prevent these northern states in the satellite belt from developing any dangerous heresies but to give Moscow a freer hand in its diplomatic adventures with the puppet "German Democratic Republic."

a. Polish Proconsul.

The boldest move to insure the USSR against resistance to its Central European policy was the appointment of Soviet Marshal K. K. Rokossovsky as Polish Minister of National Defense. It presages a tightening of the lines of Soviet control throughout the Polish Government. It probably also is the first major step in a Soviet plan to remold the Polish Army into a reliable force, partly in anticipation of the eventual withdrawal of Soviet troops from Germany and Poland. Although a similar move is in the offing in Bulgaria, Rokossovsky's appointment is the first instance in which the USSR openly has placed one of its own officers in a satellite Ministry. It testifies both to the strategic importance of Poland in Soviet long-range planning and to the comparative unreliability of the present Polish leaders.

b. Terror in Czechoslovakia.

In Czechoslovakia also the Communist regime is consolidating its own position and thereby tightening Soviet controls. It has set out to reduce Western influence as symbolized by US and other Western diplomatic representatives, has renewed its drive on the Catholic Church, and is carrying out a program of

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mass arrests directed at representative elements of the middle class. The scope of the police action, as well as the long and careful preparations that obviously had gone before, suggests that the arrests were inspired by the Kremlin.

4. East German "State."

Formation of the "German Democratic Republic" in Eastern Germany appears to be merely a new device in Soviet tactics and not a change in Soviet grand strategy. The USSR has tried consistently to keep open two alternate lines of action in developing its policy for Central Europe. The first objective, an essential minimum to be secured even if higher hopes fade, is incorporation of East Germany as a Satellite in the Soviet orbit. The second objective, more ambitious and longer in range, is a working agreement between a unified German state and the USSR against the Western Powers. The creation of the East German government, timed to counter the formation of the West German Federal Republic, aims at both these targets. The USSR unquestionably is trying to use the new government as a magnet to draw West Germany away from economic and political cooperation with Western Europe. Simultaneously, however, the USSR is moving with customary directness and thoroughness to establish absolutely safe German-Communist control of the same government. As yet Soviet policy is not risking the loss of its minimum objective in its own occupation zone as a part of a bid for a new strategic alignment with all Germany.

The USSR has gone so far with the all-German propaganda theme as to publicize a letter signed by Stalin himself, suggesting the possibility of Soviet domination of Europe in partnership with a new, strong, nationalist Germany. There is no doubt that this theme is attractive to some political and business leaders in West Germany. The Germans certainly will try to keep open an avenue for withdrawing politically and economically from the West, using the opportunity as a bargaining point even if they do not seriously plan to take advantage of it. But the patent subjection of the East German regime to the familiar pattern of satellite control raises serious doubts about the felicity of the status to which any junior partner could aspire in the Soviet firm. The German alignment theme is unlikely to win over West Germany so long as the USSR continues its present policies in East Germany and while political and economic conditions in Western Europe continue to improve.

5. Economic Integration of Western Europe.

A primary conditioning factor in the ultimate pattern of political structure and national power in Europe will be the degree of economic and political stability achieved in Western Europe. Political stability must be based on economic stability. Under present conditions, with a growing population and an organized demand for improved standards of living, economic stability in Western Europe requires steadily expanding production and increased productivity (efficiency of output). Long-range US security interests, therefore, will be directly affected by the direction taken in current negotiations and studies designed to improve the conditions of competitive marketing of Western European goods. The final character of the complex economic arrangements and the way they are actually carried out will go far toward determining whether the remarkable political and economic reconstruction of Western Europe during the past two years is a temporary phenomenon or a permanent foundation for economic growth.

a. The Economic Problem.

The European Recovery Program and the strenuous efforts of Western Europeans that have restored production to prewar levels have been offset by population increases and by increased popular expectations of consumer goods. European productivity long has been too low and costs therefore too high for Western European nations to compete with the US in world markets. This deficiency is a factor, though not the only one, in the "dollar gap."

Since the national compartmentalization of the Western European economy is a major limitation on efforts to increase productivity, recurrent proposals have been made to remedy this situation by creating one or more Western blocs in which goods and capital (and in time labor) can move with relative freedom.

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The main characteristics of such a bloc would be the convertibility of currencies and the absence of trade barriers in the form of tariffs, exchange controls, or quantitative restrictions. In ideal circumstances this kind of economic bloc would stimulate mass production for the large internal market and in time develop the European economy to a competitive and financially self-sufficient level. This goal plainly is far off, but initial moves must come almost at once if they are to get well under way before the end of the present European Recovery Program. The governments of the Western European nations are taking some hesitant steps in this direction in their capacities as members of the OEEC (Organization for European Economic Cooperation). The immediate objectives are the reduction of trade barriers, a limited deflation in most countries, and a drive for exports to dollar areas.

b. The Economic Difficulties.

There are many obstacles in the path toward reorganization, rationalization, and integration of the economies of the several nations in Western Europe. In the first place, the present economic systems of the Continental nations and the UK are mainly built around manufacturing and by and large are competitive rather than complementary. Consequently a comparatively free movement of goods initially would cause serious unemployment and depress living standards in those particular localities where uneconomic enterprises have been protected in their home markets. Moreover, at best, rationalization of the manufacturing pattern will not change the basic fact that Western Europe is singularly deficient in petroleum, non-ferrous metals, foodstuffs, and a number of other raw materials, many of which must come mainly from the dollar area.

The second major obstacle is the fact that the national components are heterogeneous in economic structure and orientation. The UK is tied by tariff preferences, financial investments, and traditional trade patterns to the Commonwealth and the Sterling Area. Its present government is committed to a largely planned economy, which can be geared to supplement and cooperate with a free-trade economy but can hardly become an integral part of it. The Scandinavian countries are not part of the Commonwealth trading system but cooperate with it closely. On the Continent, France, Italy, the Benelux countries, and West Germany have a general pattern of mixed or semi-*laissez faire* economies, but vary considerably in living standards and the stability of their currencies.

A third major difficulty is the well-established cartel pattern of industry-imposed trade restrictions. European governments, even where strong enough, show little inclination to keep these practices under control in a period when the sellers' market is giving way to a buyers' market.

c. British Policy.

The government of the UK is probably best able among those in Western Europe to carry out rigorously whatever program it adopts and provide leadership for an emerging economic bloc. The UK, however, is the one least likely to surrender extensive control over its own economic and financial policy to any supra-national authority. The present British Government takes the view that "integration" in the sense of anything beyond close cooperation for mutual benefit is impracticable. It insists on retaining freedom of action for Great Britain as a world power, the economic and political leader of the Commonwealth and the Sterling Area. It has little wish to tie the British economic system too closely to what are considered to be unstable and often mismanaged economies. For some time, at least for the rest of the tenure of the Labour Government, the UK will try to play on both the Commonwealth and the Western European teams, rejecting the idea of joining irrevocably in a special interdependent economic relationship with the other nations of Western Europe.

d. Integration and the "German Problem."

Success in achieving economic integration in Western Europe will hinge to a great extent on the feasibility of fitting West Germany into the general economic and political structure. Here the absence of British participation will be a handicap. The record of German aggressive nationalism and the competitive strength of the West German industrial

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complex raise grave fears on the Continent that Germany eventually will dominate whatever bloc emerges. France is moving hesitantly toward cooperation with Germany about as rapidly as popular opinion permits. The narrow margin by which the Adenauer and Bidault coalition governments hold power suggests that progress in this direction will be slow and uncertain. This fact complicates and reduces the chances of succeeding in a joint program of economic reforms that would inflict serious economic losses on influential labor and business groups in both countries. Less sensitive to the security aspects of the German problem, the Italian Government probably will continue to endorse economic union, although many leaders of Italian industry fear that they will be unable to compete successfully with German enterprises. The Benelux countries will be pronouncedly favorable toward the elimination of trade barriers and convertibility of currencies, but even they in their own customs union have had to reserve special privileges designed to protect their special weaknesses. Integration with France, Italy, and Germany would call forth many more special guarantees and limitations, especially on the part of the Netherlands.

Even halting progress along these lines toward integration presupposes that the Germans will resist the blandishments of the USSR, particularly those passed along through East Germany. It also presupposes that the British, while staying out of the bloc that may emerge on the Continent, by diplomacy can prevent German domination of Western Europe from assuming proportions dangerous to the interests of both the UK and the US. It will take many months for clear trends to establish themselves in the give and take of negotiations revolving around the interlocked issues of Continental economic integration and the "German problem." When trends do take shape, they will provide the principal clues as to what is going to happen on both sides of the Stettin-Trieste line in Central Europe during the next decade.

6. Near East.

The Arab states have been sounding a series of diplomatic alarms and staging political excursions in the direction of unification in the Near East. Underlying this performance is a genuine feeling on the part of Arab leaders that some kind of collective security bloc ought to be built from the ruins of the Arab League. Unlike the League, it would have to be strong enough to cope with the Israeli and defend or promote the interests of the Arab states in the conflict between the USSR and the Western world. The UK frequently prods the Arab states toward cooperation, hoping to see better coordination among those more amenable to British Near Eastern policy. Anticipation of British approval, assuming there was no actual British sponsorship, undoubtedly was a major factor in the recent, short-lived proposal for Syrian-Iraqi union. Immediate opposition to this scheme was voiced by Jordan, Saudi Arabia, Egypt, and Lebanon, each of which recognized in the proposed union a threat to some of its own national or dynastic interests. This distrust and automatic resistance to real cooperation was the rock on which the Arab League foundered. It probably will wreck the new Arab Security Pact, a tentative plan for rehabilitating the League, proposed by Egypt and adopted in principle by the League Council on 30 October. Support of the principle of collective action in a great-power world may drive the Arab states to try to achieve real unity in matters of foreign policy and defense. The very fact, however, that the Egyptian plan was devised as a way of sabotaging the earlier Syrian-Iraqi project, indicates that the Arab states will continue to pull apart more easily than to pull together.

7. Far East.

a. China.

The nations of the British Commonwealth are moving rapidly toward a policy of early recognition of the Communist-dominated "Central People's Government" in China. The UK has a commercial stake in China that is in jeopardy if the Chinese Communists resort to reprisals. Moreover, British policy appears to support the thesis that Chinese "Titoism" is more likely to grow if the new

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regime has economic ties with the West than if it is sealed off commercially and left to depend on the USSR for aid that is unlikely to be forthcoming. Indian leaders apparently view the advent of the new regime in China more as a triumph of Asiatic nationalism than as an advance of Soviet or Communist influence. The other countries in South Asia, while presently noncommittal, generally regard recognition of the Peiping Government simply as a realistic adjustment to an accomplished fact. Consequently, *de jure* recognition by one or more non-Communist powers probably will come within a few weeks or at most a few months.

b. Indonesia.

Successful conclusion of the Netherlands-Indonesian Round Table Conference at The Hague clears the way for prompt transfer of sovereignty to the new United States of Indonesia. Indonesian leaders are turning their attention to the complex tasks involved in setting up the framework of an "independent, sovereign federal republic." They are far from having reached agreements among themselves on many crucial issues, but President Sukarno appears confident that the Republic, under his own and Premier Hatta's leadership, can maintain order and rapidly expand its influence in the new federal state. Moslem and Communist extremists will try to discredit the Republic. They probably will terrorize European plantation areas during and after the withdrawal of Dutch troops and at the same time launch propaganda attacking the weakness of Republican control. The Republican leaders, if they are able to cope with these immediate problems, can then attack the long-range political and economic difficulties that stand in the way of stability in Indonesia. What has come out of The Hague at last is simply an opportunity for Indonesia to take a place beside India as an element of strength in non-Communist South Asia. Skilful management by the Republican leaders in the transition period of Dutch withdrawal will protect this opportunity. The odds, though close, are in favor of their success.

8. Latin America.

The interest of the US in seeing Latin American countries maintain or develop stable representative forms of government has been adversely affected by several recent developments. In Colombia, violent clashes between Conservatives and Liberals have culminated in the declaration of a state of siege. In spite of President Ospina's statement to the contrary, holding elections during the state of siege and under present political conditions is virtually impossible. In Peru much the same situation exists as regards democratic procedures in a different local context of political power. There, announcement of the possibility of holding elections is merely evidence that the members of the present military *junta* are confident they can manipulate the electoral process to their satisfaction. In two other countries the stability of the administration has deteriorated, in Bolivia as a result of disunity among groups nominally committed to support the government, and in Paraguay as a result of increasing activity among perennially plotting anti-government factions. Finally, in Argentina, the Peron Government has extended its authoritarian controls in an attempt to forestall possible manifestations of discontent over economic conditions.

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